




Baton Broadcasting Incorporated
Annual Report

1974



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Directors and Officers

JOHN WHITE HUGHES BASSETT
President, Chairman of the Board and Director

EDWARD JOSEPH DELANEY
Vice-President, Secretary and Director

FOSTER WILLIAM HEWITT
Vice-President and Director

LAWRENCE MALCOLM NICHOLS
Vice-President, Treasurer and Director

JOSEPH JOHN GARWOOD
Director and Controller

GORDON VINCENT ASHWORTH
Director

DOUGLAS GRAEME BASSETT
Director

ALLAN LESLIE BEATTIE
Director

CHARLES FOWLER WILLIAMS BURNS
Director

FREDRIK STEFAN EATON
Director

EDWIN ALAN GOODMAN
Director

TRANSFER AGENT AND REGISTRAR
The Canadian Imperial Bank of Commerce

AUDITORS
Clarkson, Gordon & Co.

Report to the Shareholders

This is the third annual report of Baton Broadcasting Incorporated and presents the results for the year ended August 31, 1974.

Baton has already issued an interim report on earnings for the year ended August 31, 1974 indicating a net income of \$3,670,751 before the inclusion of an extraordinary item. Since that time a surtax has been levied retroactively on a portion of the Company's profits by the Federal Government and net income has been adjusted downward to \$3,610,709. This is an increase of \$728,102 from the preceding year's net income of \$2,882,607.

This improvement reflects gains made in most of the operations of the Company. During the year the franchise of the Toronto Argonaut football club was sold and this produced an extraordinary profit of \$1,135,620 net of income taxes thereon. Once again this item had been previously reported to the shareholders as a gain of \$1,158,620 net of income taxes, but this figure has also been reduced because of the federal income tax surcharge to \$1,135,620.

Accordingly, the earnings per share for the year ended August 31, 1974 now equal \$0.522 before inclusion of the extraordinary item and \$0.686 per share after inclusion of the extraordinary item.

Revenue from the sale of air time increased during the year by \$2,690,757 or 12.5% over the preceding year, production revenue increased by \$1,179,528 or 13.5% over the preceding year and football operating income declined slightly by \$67,468 or 3.5%. The overall increase in revenues was \$3,802,817 or 11.8% while operating expenses during the year increased by \$2,799,146 or 11.5%.

During the year the Company disposed of its investments in CKLW-TV in Windsor, Ontario and sold the Toronto Argonaut football franchise. The proceeds arising on disposal of these properties were applied to the reduction of the Company's long-term debt and its bank indebtedness. This has resulted in a substantial improvement in the Company's working capital position which at August 31, 1973 amounted to \$646,706 and at August 31, 1974 amounted to \$6,198,631.

Television

The Company's television outlets in Toronto, Ontario, CFTO-TV and Saskatoon, Saskatchewan, CFQC-TV continued to show strong gains throughout 1974 in both revenues and earnings. Both of these stations are rated number one among viewers in their respective market areas.

In our last annual report we indicated that CFTO would move its transmitter to the top of the new CN Tower and that service from this new location was expected to commence approximately January 1, 1975. Because of delays in the construction of the tower, there will be a delay of approximately one year before commencement of broadcasting from this location.

Radio

The Company's radio operation in Saskatoon, Saskatchewan, CFQC, showed substantial improvement in operating results in 1974 over the preceding year. This improvement reflects an increase in advertising revenues from this market. CFQC is the number one rated station among radio listeners in its area.

The operating results for our radio station CKLW in Windsor, Ontario showed a further slight decline in 1974 over the preceding year, reflecting the poor economic conditions that exist in the Detroit market. This station continues to rate as number one among radio listeners in its coverage area but we would expect this operation will not begin to show financial improvement until economic conditions in Detroit improve. There is, unfortunately, no sign of this at the present.

We reported to you in our last annual report that the Ottawa radio station, CFGO, would commence broadcasting at an increased power of 50,000 watts effective January 1, 1974. This was accomplished and this station has enjoyed a steady growth in advertising revenues since that time.

An application by this station for renewal of its broadcasting license, which expires December 31, 1974 has been approved by the Canadian Radio-Television Commission for a period in excess of three years

ending March 31, 1978. During the year the Company acquired the remaining forty percent interest in this company which had been held previously by a group of Ottawa shareholders. Approval of this purchase was granted by the Canadian Radio-Television Commission on July 17, 1974.

Production

The Company's subsidiary, Glen-Warren Productions Limited, and its subsidiary companies account for most of the production revenues earned by the Company. This operation also has enjoyed continued growth during 1974.

In March of 1974 Glen-Warren opened a branch operation for its production activities in the United States and business generated by this branch has shown steady growth since that time.

The international reputation of Glen-Warren also continues to grow and its mobile facilities were employed as far away as Manila, in the production of the Miss Universe contest, and Bermuda for the production of an Engelbert Humperdinck special featuring Canada's Anne Murray.

The Toronto based studios were utilized for the production of specials for the CBS Network including "Love in Paradise" and for a special aired on the ABC Network in the United States, "The Last Bride of Salem".

Grove Enterprises Corporation, a company in which Glen-Warren Productions owns a sixty percent interest, operates a theatre and shopping complex in Miami, Florida. The traditional season for this theatre had been approximately a twenty-week period from December to April. In an effort to improve results, this operation was extended to approximately forty weeks in the 1973/74 season. This experiment was encouraging and the operating loss in Miami was reduced for the 1974 year, but the improvement was below our expectations. Once again we are extending this operation for the 1974/75 season and the results to date are encouraging. We have recently completed a reorganization of our holdings in this undertaking which we expect will produce certain overall savings for the Company.

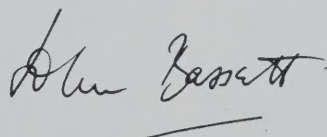
Football

The football operating results included in this report for the Argonaut Football Club Limited cover the year ended December 31, 1973. In the month of March, 1974 the Toronto Argonaut football franchise was sold by the Argonaut Football Club and this sale resulted in an extraordinary gain net of income taxes of \$1,135,620.

Outlook

Inflation and uncertain economic conditions once again make it difficult to predict the forthcoming year. Nevertheless, at this point of time the Company's preliminary profit figures are ahead of the preceding year. Advance commitments from advertisers are excellent and we are hopeful that this fiscal year will be satisfactory.

On behalf of the Board,



John W. H. Bassett,
President and Chairman of the Board.





"Mission Million Possible" the Third Olympic Lottery Draw was produced at Hamilton Place, Hamilton, Ontario, and telecast on the CTV and TVA Networks.



Jim Perry is the host of the Glen-Warren production, "Definition", featuring such top guest celebrities as Jack Carter and Peggy Cass.



Sandler and Young appearing in a special produced in CFTO's large Studio Six.



"The Funny Farm," a successful new series from Glen-Warren Productions Limited is appearing this season on CTV.



The 1975 Miss Canada Pageant – produced in CFTO's Studio Six.



"The Hudson Brothers Razzle Dazzle Show" produced at CFTO, is currently seen on both the CTV Network in Canada and the CBS Network in the U.S.A.

The scene at the left depicts activity in one of CFTO's electronic editing theatres. This important post production service is one of the most modern facilities in North America.

Consolidated Balance Sheet

August 31, 1974 (with comparative figures at August 31, 1973)

Assets

Current

	1974	1973
Cash and short-term investments.....	\$ 3,491,297	\$ 577,120
Accounts receivable.....	6,723,875	5,847,078
Inventory of programs and production materials, at the lower of cost and net realizable value.....	797,031	1,190,272
Prepaid and deferred expenses.....	683,716	817,883
Income taxes recoverable.....		781,268
Total Current Assets	11,695,919	9,213,621

Investments

CKLW-TV, at cost plus accrued interest (note 2).....		5,318,938
Other companies, at cost less amounts written off.....	307,217	1,834,383
Motion pictures, at cost less allowance for losses.....	239,933	422,762
Total Investments	547,150	7,576,083

Fixed Assets (note 3)

Land.....	1,917,008	1,868,486
Buildings.....	7,662,781	7,242,743
Production and transmitting equipment.....	13,329,267	11,499,926
Automotive equipment, furniture and fixtures.....	1,197,371	1,157,944
	24,106,427	21,769,099
Less accumulated depreciation.....	10,073,851	8,887,838
Total Fixed Assets	14,032,576	12,881,261

Other Assets, at cost

Television and radio broadcasting licences and goodwill (note 4)	7,464,667	7,212,239
Football franchise and goodwill.....		1,762,285
Rights to Miss Canada and Miss Teen Canada Pageants.....	197,627	197,627
Total Other Assets	7,662,294	9,172,151
	\$33,937,939	\$38,843,116

(See accompanying notes)

Baton Broadcasting Incorporated

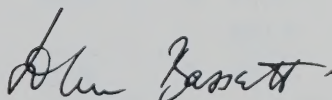
(Incorporated under the laws of Ontario) and subsidiary companies

Liabilities and Shareholders' Equity

Current	1974	1973
Bank indebtedness.....		\$ 2,956,934
Accounts payable and accrued charges.....	\$ 1,903,573	1,827,422
Advance ticket sales.....	197,591	1,194,899
Income and other taxes payable.....	2,801,914	934,484
Long-term debt due within one year and accrued interest (note 5).....	200,210	696,176
Deferred income taxes.....	394,000	957,000
Total Current Liabilities	5,497,288	8,566,915
 Deferred Income Taxes	 3,609,000	 3,507,900
 Long-term Debt (note 5)	 1,555,612	 7,234,010
 Shareholders' Equity		
Share capital (note 6) –		
Authorized:		
9,000,000 common shares without par value		
Issued:		
6,900,000 (1973 – 6,950,000) common shares.....	11,020,400	11,100,250
Retained earnings.....	9,006,927	5,161,779
Contributed surplus (note 6).....	3,248,712	3,272,262
Total Shareholders' Equity	23,276,039	19,534,291

On behalf of the Board:

\$33,937,939 \$38,843,116



Director



Director

Consolidated Statements

For the year ended August 31, 1974 (with comparative figures for 1973)

Income

	1974	1973
Revenues:		
Time sales – net of agency commissions.....	\$24,201,024	\$21,510,267
Productions.....	9,908,936	8,729,408
Football operating income.....	1,850,344	1,917,812
	<u>35,960,304</u>	<u>32,157,487</u>
Expenses:		
Programming.....	17,522,934	15,951,127
Selling and administrative.....	8,186,354	6,913,601
Football operating expenses.....	1,512,058	1,557,472
	<u>27,221,346</u>	<u>24,422,200</u>
Income before interest, depreciation, income taxes and extraordinary item.....	<u>8,738,958</u>	<u>7,735,287</u>
Deduct:		
Interest expense.....	91,515	779,139
Depreciation (note 3).....	1,333,234	1,287,741
	<u>1,424,749</u>	<u>2,066,880</u>
Income before income taxes and extraordinary item.....	<u>7,314,209</u>	<u>5,668,407</u>
Income taxes:		
Current (including surcharge of \$60,042).....	3,197,436	2,142,500
Deferred – current and long-term portions.....	506,064	643,300
	<u>3,703,500</u>	<u>2,785,800</u>
Income before extraordinary item.....	<u>3,610,709</u>	<u>2,882,607</u>
Extraordinary item (note 1):		
Gain on sale of football franchise net of income taxes thereon of \$515,185.....	1,135,620	
Net income for the year.....	<u>\$ 4,746,329</u>	<u>\$ 2,882,607</u>
Earnings per share (note 6):		
Based on average of 6,918,750 shares outstanding during the year (1973 – 6,863,350)		
Net earnings per share before extraordinary item.....	\$ 0.522	\$ 0.42
Net earnings per share from extraordinary item.....	0.164	
Total net earnings per share.....	<u>\$ 0.686</u>	<u>\$ 0.42</u>

(See accompanying notes)

Baton Broadcasting Incorporated

and subsidiary companies

Changes in Financial Position

	1974	1973
Funds provided from operations:		
Income before extraordinary item.....	\$ 3,610,709	\$ 2,882,607
Add (deduct) items not involving an outlay of funds:		
Interest CKLW-TV.....	(182,042)	(104,325)
Depreciation (note 3).....	1,333,234	1,287,741
Deferred income taxes – long-term portion.....	506,064	480,000
Provision for losses on non-current investments in motion pictures.....	215,228	91,000
	<u>5,483,193</u>	<u>4,637,023</u>
Proceeds from sale of non-fund assets:		
Gain on sale of football franchise.....	1,135,620	
Issue of common shares.....		5,125,000
Investment in CKLW-TV (note 2).....	5,500,980	
Investment in other companies.....	1,627,232	35,360
Football franchise and goodwill.....	1,762,285	
	<u>15,509,310</u>	<u>9,797,383</u>
Funds used for:		
Goodwill resulting from purchase of shares of subsidiary company (note 4).....	252,428	
Net additions to motion pictures.....	32,399	223,663
Purchase of fixed assets.....	2,484,549	1,285,120
Investments in other companies.....	100,066	
Share issue and organization expenses.....		37,000
Reduction of deferred income taxes.....	404,964	1,018,000
Repurchase of common shares (note 6).....	312,081	
Dividends paid.....	692,500	670,000
Net reduction of long-term debt less portion due within one year.....	5,678,398	4,642,650
	<u>9,957,385</u>	<u>7,876,433</u>
Increase in working capital.....	5,551,925	1,920,950
Working capital (deficiency), beginning of year.....	646,706	(1,274,244)
Working capital, end of year.....	<u>\$ 6,198,631</u>	<u>\$ 646,706</u>

(See accompanying notes)

Consolidated Statements

For the year ended August 31, 1974 (with comparative figures for 1973)

Retained Earnings

	1974	1973
Balance, beginning of the year.....	\$ 5,161,779	\$ 2,986,172
Net income for the year.....	4,746,329	2,882,607
	<u>9,908,108</u>	<u>5,868,779</u>
Excess over assigned value of common shares repurchased (note 6)	208,681	
Share issue expenses written off.....		37,000
Dividends paid.....	692,500	670,000
	<u>901,181</u>	<u>707,000</u>
Balance, end of the year.....	<u>\$ 9,006,927</u>	<u>\$ 5,161,779</u>

(See accompanying notes)

Auditors' Report

To the Shareholders of Baton Broadcasting Incorporated:

We have examined the consolidated balance sheet of Baton Broadcasting Incorporated and its subsidiary companies as at August 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 4, 1974.

CLARKSON, GORDON & Co.
Chartered Accountants

Notes to the Consolidated Financial Statements

August 31, 1974

1. Financial statement presentation

The consolidated financial statements include the financial position of the following companies at August 31, 1974 and the results of their operations for the year then ended –

Baton Broadcasting Incorporated

CFTO-TV Limited and its subsidiaries:

- CKLW Radio Broadcasting Limited
- CKLW Radio Sales Inc.
- CFQC Broadcasting Limited
- Confederation Broadcasting (Ottawa) Limited

Glen-Warren Productions Limited and its subsidiaries:

- Agincourt Productions Limited
- The Twenty-Fifth Frame Film Production Company Limited
- Moanne Company Limited
- Variety Artists Productions Limited
- Cleo Productions Limited
- Grove Enterprises Corporation (Grove)

together with the financial position of Agincourt Football Enterprises Limited (formerly the Argonaut Football Club Limited) at August 31, 1974 and the results of its operations for the 20 months then ended.

On March 12, 1974 the Argonaut Football Club Limited sold all of its operating assets and franchise rights. The gain on the sale of the assets totalled \$1,135,620 net of income taxes thereon of \$515,185. Subsequent to this transaction the name of the company was changed to Agincourt Football Enterprises Limited.

The share of losses of subsidiary companies accruing to minority shareholders has been deducted from the consolidated income of the Company to the extent that accumulated losses exceed the total investment of the minority shareholders.

2. Investment in CKLW-TV

In accordance with a prior agreement, CFTO-TV Limited sold its 75% interest in CKLW-TV to St. Clair River Broadcasting Limited, a subsidiary of the Canadian Broadcasting Corporation. The sale was effected at CFTO's carrying value for the investment and as a result no profit or loss was realized on the transaction.

3. Fixed assets and depreciation

Fixed assets are shown at original cost to the Company's subsidiaries, adjusted by an increase of \$2,027,025 to reflect fair values at the dates of acquisition of certain of the subsidiaries by the Company. This increase of \$2,027,025 has been allocated as follows: land – \$1,177,076, buildings – \$384,372 and production and transmitting equipment – \$465,577. Accumulated depreciation at the dates of acquisition represented depreciation previously provided by the subsidiaries on such assets, restated where necessary, to conform to the depreciation policy of the Company.

follows: Rates and bases of depreciation applied by the Company and its subsidiaries have been as

Buildings	– 2½% per annum on a straight-line basis
Production and transmitting equipment	– 7 to 12½% per annum on a straight-line basis
Automotive equipment	– 30% per annum on a diminishing balance basis
Office furniture and fixtures	– 10% per annum on a straight-line basis

4. Acquisitions and accounting treatment

Effective May 16, 1974 CFTO-TV Limited acquired the remaining 40% of the outstanding shares of Confederation Broadcasting (Ottawa) Limited. The cash consideration given totalled \$254,888 representing \$186,888 paid for the shares of Confederation plus repayment of an advance of \$68,000. At the date of acquisition Confederation had an excess of liabilities over the book value (which approximated fair value) of its tangible assets. The portion of such excess was \$252,428. This goodwill arising from this transaction is to be amortized over a period of forty years beginning in the fiscal period commencing September 1, 1974.

5. Long-term debt

The long-term debt of the companies consists of the following:

	August 31	
	1974	1973
8% promissory note, due August 25, 1981.....	\$ 525,000	\$ 600,000
9% promissory notes, principal and interest due May 31, 1975 (\$2,500,000 U.S. plus accrued interest of \$763,800 U.S.).....		3,320,800
Promissory notes due January 31, 1976, repayable annually in amounts equal to 50% of the consolidated cash profits (as defined) of CKLW Radio Broadcasting Limited together with interest at a rate of 1/2% above the Company's bank's prime lending rate throughout the term of the notes (\$2,483,391 U.S. plus accrued interest).....		2,520,641
Equipment contracts, at rates of interest of 7 3/4% and 9%, payable over one to three years, secured by liens against such equipment.....	214,364	443,208
9 1/4% mortgage due October 12, 1977, repayable by monthly instalments of \$5,428 including interest and principal, secured by office building and land of CKLW Radio Broadcasting Limited.....	581,104	593,109
9% mortgage due May 15, 1987, repayable by monthly instalments of \$4,818 including interest and principal, secured by land and buildings of Grove (\$440,625 U.S.).....	435,354	452,428
	<u>1,755,822</u>	<u>7,930,186</u>
Portion due within one year.....	200,210	696,176
	<u>\$1,555,612</u>	<u>\$7,234,010</u>

Long-term debt repayments due in each of the next five years are as follows:

Year ended August 31,	
1975	\$200,210
1976	162,260
1977	173,760
1978	643,030
1979	100,630

6. Share capital

In accordance with a resolution of the Board of Directors on January 22, 1974, Baton Broadcasting Incorporated repurchased 50,000 of the Company's common shares on the open market for a total purchase price of \$312,081. The \$312,081 purchase price was allocated as follows:

Share capital	\$ 79,850
Retained earnings	208,681
Contributed surplus	<u>23,550</u>
	<u>\$312,081</u>

7. Translation of foreign currency

Current assets and liabilities in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange at August 31, 1974. Long-term debt has been translated at the rates prevailing on the dates of original borrowings. Transactions during the period have been translated at the average rate of exchange prevailing during the year.

8. Contingent liabilities

In the ordinary course of the business of the Company and its subsidiaries there are matters in suit and in dispute and other contingencies outstanding against them. In the opinion of the Company's counsel, the losses, if any, which may result from the settlement of these matters will not be material.

9. Statutory information

The aggregate remuneration paid during the year by the Company and its subsidiaries to the directors and senior officers of the Company was approximately \$357,000 (1973 - \$365,000).

10. Commitments

At August 31, 1974 CFTO-TV Limited had commitments to purchase certain fixed assets totalling approximately \$1,300,000.

